

Funding Reform Update



March 2006

Welcome to *Funding Reform Update*

Welcome to the first in a series of information sheets which will be provided to funded services and available online to keep you up-to-date with funding reforms being undertaken by the NSW Department of Community Services (DoCS).

DoCS' overall vision for its funding programs is to ensure the best outcomes for our clients from the available funding by rewarding enhanced performance and better sharing of responsibility for managing service delivery with service providers.

The reforms we've embarked on aim to provide benefits for all parties. While DoCS is seeking to ensure better outcomes for clients, funding reform also means service providers will experience more consistent and streamlined funding processes. They will have greater flexibility to integrate services and match them to clients. Where appropriate, they will also have longer-term funding for services and rewards for enhanced performance.

DoCS is committed to fostering a diverse and vibrant service sector that makes the best use of local expertise and networks, employs sound governance arrangements and ensures services are based on the most up-to-date research and delivered effectively.

This means significant changes to the way services are currently funded and delivered by both DoCS and service providers. It means shifting away from a system that focuses largely on inputs, processes, prescriptive accountability mechanisms and largely DoCS-controlled service system design to one that emphasises outcomes, flexibility, and a greater role for providers in service system design.

We're trying to move away from prescriptive service delivery models, business procedures and reporting arrangements to a model which looks at service demand and supply, effectiveness of different services in achieving outcomes, cost structures associated with providing services and ways to reconfigure services to get better outcomes with the available funding.

For services this will mean more stable funding and incentive-based approaches where savings achieved are directed to improving service quality or expansion of priority services and/or innovative models of service provision.

We're working towards better contracting arrangements based on sound performance so we can better demonstrate services are impacting on our clients and the community.

It's not an easy job, nor is it a simple one. I hope you will continue to work with DoCS to build a robust service system that is open, transparent and accountable, that encourages innovation and, most importantly, effectively delivers services to the most vulnerable members of our community.

Dr Gül Izmir

Deputy Director-General
DoCS Research, Funding and Business Analysis

Growth provides opportunity for reform

An overview of our funding policy

In just over a decade DoCS has grown from having four funding programs with a renewable funding base of around \$192 million to 21 programs totalling almost \$500 million in 2005/06.

DoCS' \$1.2 billion budget enhancement provided a massive injection of funding and identified the need to grow new service systems, as well as look at more innovative and performance-based ways of delivering services. This, and the transfer of a range of funding programs which come under the Department's Communities Division such as *Families First* and *Better Futures*, has prompted the need to reform the way the funding system currently operates.

DoCS' blueprint for funding reform over the next five years is outlined in *DoCS Funding Policy*, which was launched in September 2005.

"The growth in funded services has been significant, and any organisation working with vulnerable people will tell you that the demand for

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services continues to increase. The challenge is to link accountability for funding with good outcomes for clients in terms of both current and future demand," said DoCS Deputy-Director General, Research, Funding and Business Analysis, Dr Gül Izmir.

"We can't afford to fund services on an ad hoc basis. It's not fair for services and it's not fair for clients. Uncertainty makes it hard for services to build capacity and we need to consider ways to deliver more innovative services. A key to this funding reform process is anticipating future demand and building on service networks with the right range, mix, quality and quantity of services. Of course, we will also need to deliver value and make the best use of our resources."

Initially the policy will apply to programs funded through DoCS' budget enhancement such as the Out-of-Home Care High Needs Kids and Early Intervention Programs. Over time, the policy will be applied to all established funding programs.

"Obviously we're rolling this out progressively and when we're ready to start work with existing programs, DoCS will work with services to prepare them for these changes," advised Dr Izmir.

Developed in consultation with representatives from the community services sector, the funding policy aims to make sure that DoCS purchases the best possible services for children, young people and their families.

It focuses on three main areas: strengthening service capacity, performance-based contracting and flexible funding options.

The policy will help services to build their capacity by ensuring they have the practical tools and training to improve their governance and reporting processes.

"We are focused on developing a diverse, robust and viable service system. This means that our funding reforms will encourage the building of a sector with a mix of small and large organisations who will deliver a range of locally-relevant and cost effective services to meet the needs of our clients," said Dr Izmir.

The policy will link funding levels to service outcomes through the shift to performance-based contracting. This will give services more flexibility in how they meet clients' needs by focusing on what they achieve rather than how they achieve it.

"Performance-based contracting will clearly set out both parties' expectations and responsibilities in terms of service delivery and put in place measures that will assist organisations to better demonstrate the benefits of the services they provide," said Dr Izmir.

The policy also advocates more flexible funding options. They range from contestable Expression of Interest processes to direct allocation of funding so that the best placed provider has the chance to deliver the services required.

"The Funding Policy is an important document for both DoCS and service providers. It will be the cornerstone for changes to come. We encourage services to read the policy and consider how they will align themselves with its broad direction," said Dr Izmir.

DoCS Funding Policy can be downloaded from the For Our Partners pages of DoCS' website at www.community.nsw.gov.au

Good Practice Guidelines released

DoCS, peak bodies and funded services have pooled their collective knowledge to develop the *Good Practice Guidelines*.

The Guidelines have been trialled with 30 services and found to be a helpful and practical tool.

The Guidelines give concrete examples of best practice to help services develop good governance, systems and processes to make them robust and accountable.

They focus on guiding and supporting service development, promote quality outcomes for clients and improve and simplify evaluation and accountability procedures.

The Guidelines cover three broad areas:

- **your organisation** with guidelines on governance, systems management and human resource management
- **your activities** with guidelines on access, service and programs design, and implementation
- **your relationships** with guidelines on community development, networks and funding partnerships, and contracts.

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The Guidelines will be used for the first time as part of the Service Specifications for the Early Intervention program. To find a copy of the Guidelines, visit the For Our Partners pages at DoCS' website at www.community.nsw.gov.au

Funding reform – an insider's experience

Programs funded under DoCS' \$1.2 billion budget enhancement are the first to be allocated money under the new funding processes outlined in DoCS Funding Reform Policy.

One area to capture the early benefits from funding reform is the Out-of-Home Care program in relation to placement and support services for children and young people with high and complex needs.

Children with very high and complex support needs represent only two per cent of the approximately 11,000 children currently in Departmental care, but they consume more than 30 per cent of the Department's total Out-of-Home-Care budget.

Following an Expression of Interest process, \$31.4 million per annum was recently allocated to four agencies to provide 229 placements for children and young people with high and complex needs.

The Expression of Interest process represented a shift away from individually negotiated, highly intrusive and ad-hoc arrangements to ensuring services had the capacity to work with young people, provide them with wrap-around services and take responsibility for helping to reduce the intensity of services required over time.

Marist Youth Care was one of eight successful organisations who submitted an Expression of Interest (EOI) under this new funding model in February 2004.

Marist Youth Care (MYC) works with young people who are victims of mental, physical and sexual abuse, abandonment and neglect, drug and alcohol abuse and family breakdown explained MYC's Acting Executive Director, Ken Buttrum.

"With the funding, MYC is contracted to provide 20 residential placements for children and young people with high and complex needs in Sydney's west and south west.

"In our original EOI submission, we proposed a service model. Once our submission was short-listed, we entered into discussions with DoCS to refine the model and develop costings. After we reached consensus on the model, DoCS prepared detailed service specifications based on our discussions.

"The new system saves us administrative costs and helps our cash flow. We are now paid in advance and know exactly how much money we have to meet the various needs of our young people," said Mr Buttrum.

Service specifications set agreed outcomes for the project. They cover the entire three-year funding period and will be reviewed annually. MYC will provide regular reports on the outcomes achieved for children and the overall management of the service.

The new reporting structure gives services an opportunity to showcase their achievements with clients.

"For MYC, the emphasis on reporting on our outcomes transfers the focus from what the service is doing with processes to what the service is doing to benefit the young people in our care," said Mr Buttrum.

Frequently asked questions

This *Funding Reform Update* regular column will answer your commonly asked questions about DoCS funding reform.

What is funding reform about?

The NSW Government's \$1.2 billion budget enhancement has given DoCS the opportunity to review and improve its funding practices to reflect international best practice. Funding reform will enable DoCS to obtain the best possible services for our clients with the increased funding.

DoCS' Funding Policy sets the directions for achieving reform over the next five years. It also contains concrete policy direction for the short term. You can download the policy from DoCS' website at www.community.nsw.gov.au

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The Policy has three main themes:

- **performance-based contracting** to give services more flexibility and control over the way they manage their projects. Under new funding agreements and reporting arrangements, the focus will shift from 'how services are delivered' to 'what outcomes are achieved for clients'.
- **strengthening the service system** to ensure a viable, diverse community services sector that can meet the needs of our clients.
- **flexible funding options** to make sure that DoCS selects the provider best placed to deliver the service required. This will involve using a range of funding processes from the most contestable Expression of Interest (EOI) processes to direct allocation of funding.

Which services will be affected by funding reform?

In the first instance, DoCS Funding Policy will be applied as new funding from DoCS' \$1.2 budget enhancement is rolled out.

Eventually funding reform will be applied to all funding programs and existing funding arrangements. This will be done in consultation with the sector and in view of the particular features and objectives of the programs.

Will small services be 'squeezed out' of the sector by funding reform?

DoCS understands that there is some concern in the sector about the possibility that small services will be defunded or "squeezed out" of the sector as a result of the implementation of the funding policy.

This is *not* DoCS' intention. The funding policy clearly states our commitment to supporting a diverse community services sector and working with small organisations to ensure their viability and capacity.

DoCS believes that the sector needs a diverse range of service providers to meet the varied needs of children and their families throughout NSW.

When developing the funding policy, DoCS consulted with the peak organisations that represent small services and conducted stakeholder workshops to make sure the policy was responsive to the needs of all stakeholders, including small organisations.

We would like to reassure all funded services that DoCS values sector diversity and will continue to develop strategies in partnership with services and peak organisations to preserve this diversity and develop the service system as a whole.

How will services benefit from funding reform?

Some of the benefits of funding reform for services and their clients include:

- clearly outlined expectations for service delivery as negotiated between the services and DoCS
- simplified reporting requirements
- greater flexibility in how the service can respond to clients' needs as DoCS shifts the focus from 'how' services are delivered to 'what' services are delivered to clients
- rewards for services that perform well (eg extended length of Service Level Agreements, up to five years)
- support tools to assist services to develop their capacity.

DoCS understands that some services may experience uncertainty about funding reform.

Services will need timely and accurate information and effective support to implement the changes. We will continue to work with services throughout this process.

When will funding reform begin?

Funding reform has already started and will continue over the next five years. Some of the initiatives outlined in DoCS Funding Policy are already underway. For example the Expression of Interest process has been run with the Out-of-Home Care High Needs Kids program and is also underway with our Early Intervention Program.

The process will be progressively integrated into all new funding rounds.

Over the next 12 months, you are likely to see a number of new initiatives:

- **performance management frameworks** will provide the basis for monitoring and managing all DoCS' renewable contracts. The framework is designed to ensure that service delivery becomes more focussed on results.

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- **Good Practice Guidelines** for DoCS Funded Services (referred to in DoCS Funding Policy as Standards for Continuous Quality Improvement) provide tools to guide and support services. They aim to help services improve governance, management and service design and ultimately deliver better services to clients.
- **performance-based contracting** will involve DoCS working with services to develop clearly written Service Level Agreements that focus on results rather than inputs and processes. Services will have greater flexibility to determine 'how' they deliver their projects to get the agreed results. Performance-based contracting will be introduced in stages. DoCS will support services throughout the process.

How do I make sure I get future copies of Funding Reform Update and other information?

Funding Reform Update will be posted out to DoCS funded services and uploaded onto the For Our Partners section of DoCS' website at **www.community.nsw.gov.au**

If you have any suggestions for areas you would like to see covered in the information sheet or questions about DoCS funding reform, email us at: **funding.reform@community.nsw.gov.au**